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瑞聲科技控股有限公司
AAC TECHNOLOGIES HOLDINGS INC.

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 2018)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2022

The board (the "**Board**") of directors (the "**Director(s)**") of AAC Technologies Holdings Inc. ("**AAC Technologies**" or the "**Company**") is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the six months ended 30 June 2022 ("**1H 2022**") together with the comparative figures for the corresponding period in 2021 ("**1H 2021**").

These unaudited condensed consolidated financial statements have been reviewed by the Company's auditor, Deloitte Touche Tohmatsu and the Company's audit and risk committee and approved by the Board on 24 August 2022.

2022 INTERIM RESULTS HIGHLIGHTS (UNAUDITED):

(RMB Million)	**1H 2022**	1H 2021	*YoY%*	**Q2 2022**	Q2 2021	*YoY%*
Revenue	**9,412**	8,609	*+9.3%*	**4,516**	4,317	*+4.6%*
Gross Profit	**1,783**	2,415	*-26.2%*	**826**	1,078	*-23.4%*
Gross Profit Margin	***18.9%***	*28.1%*	*-9.2ppts*	***18.3%***	*25.0%*	*-6.7ppts*
Net Profit*	**350**	921	*-62.0%*	**145**	389	*-62.8%*
Net Profit Margin	***3.7%***	*10.7%*	*-7.0ppts*	***3.2%***	*9.0%*	*-5.8ppts*
Basic EPS (RMB)	**0.29**	0.76	*-61.7%*	**0.12**	0.32	*-62.4%*
Share Numbers (Weighted average, million)	**1,200**	1,209		**1,198**	1,209	

* Net profit represents profit attributable to owners of the Company.

BUSINESS REVIEW

For the second quarter of 2022 ("**Q2 2022**"), the resurgence of the pandemic in China and the volatility of global macroeconomics weakened the market demand for smartphones, but the Group's market share of multiple product lines rose steadily, achieving revenue of RMB4.52 billion, up 4.6% year-on-year ("**YoY**"). As a result of the changes in product portfolio induced by the expansion of the Group's business scale and the decrease in average selling price ("**ASP**") caused by intensified industry competition in the optics business, gross profit margin decreased by 6.7 percentage points ("**ppts**") YoY to 18.3% and net profit decreased by 62.8% YoY to RMB145 million. For the first half of 2022 ("**1H 2022**"), the Group's revenue was RMB9.41 billion, up 9.3% year-on-year ("**YoY**"). gross profit margin was 18.9%, down 9.2 ppts YoY. Net profit was RMB350 million, down 62.0% YoY.

According to International Data Corporation's ("**IDC**") latest report, the global smartphone shipment in Q2 2022 declined 8.7% YoY. In view of declining demand in the smartphone market, the Group continued to strengthen its principal businesses and to improve market share of each business segment. In particular, the demand from overseas customers were stable, while the Group's market shares increased. For the Android business, despite the decline in overall market demand, the Group was able to sustain the market share with major customers and maintained a stable gross profit margin. For the new strategic markets, the Group continued to develop new projects and secured a number of automotive and AR/VR projects by actively expanding into the respective markets. With respect to internal operations, the Group promoted smart manufacturing through automated production and digitalized management, developing the Group's digital capabilities. With respect to the sales operation, the Group's sales were forecasted dynamically according to specific demands: efficient resource allocation, dynamic adjustment, timely feedback, strict inventory control and improved turnover rates. The marketing teams in each business unit were merged to integrate sales resources, improve efficiency and achieve composite sales to key customers. The Group continues to reduce costs, increase efficiency and improve its operation capability, laying a solid foundation for continuous increase of market share and sustainable growth in the future.

After careful review, the Board has resolved not to declare an interim dividend for the six months ended 30 June 2022 (2021: HK$0.20), in light of the resurgence of COVID-19 pandemic and uncertain market outlook. The Group remains prudent in financial management and conducts active liquidity management by stringently managing capital expenditures and research and development ("**R&D**") expenses. During the reporting period, operating cash inflows were RMB1.43 billion and major capital expenditures amounted to RMB1.06 billion. As of 30 June 2022, net gearing ratio was 10.7%, and cash on book was RMB5.22 billion. A sound financial position is critical to the sustainability of the Group's development, which ensures the Group's ability to continuously innovate and develop going forward.

PERFORMANCE AND DEVELOPMENT OF BUSINESS SEGMENTS

Acoustics Business

For Q2 2022, the Group's market share with overseas customers was stable, leading to a significant increase in sales YoY. However, due to external factors such as the pandemic, the market demand from Android smartphones weakened. Sales of the acoustics business decreased by 6.4% YoY to RMB1.91 billion. Gross profit margin remained relatively stable at 27.7%. For 1H 2022, revenue generated from the Group's acoustics business was RMB4.14 billion, which was at the same level as last year. Gross margin was 27.1%, down 5.9 ppts YoY which was mainly due to a YoY decrease in ASP from our overseas customers in the first quarter and higher operating costs caused by the pandemic.

The second quarter was a traditional low season for overseas customers, therefore revenue experienced a seasonal decline quarter on quarter ("**QoQ**"). However, the Group increased its market share by consistently securing stable deliveries to its major customers. With respect to the Android market, the Group continued to optimize its product line management through digital transformation and closed-loop project management to improve efficiency in human resources, resulting in significant cost reductions and efficiency enhancement. While maintaining our market position in the mid-to-high-end smartphones, a series of products with a higher price-performance ratio were launched to further increase its market share in the mid-to-low-end smartphones and improve its overall market share. The automotive acoustics business was progressing smoothly; the Group has already secured a number of projects, including integrated solutions, partial application of speaker modules and tuning projects, covering a wide range of customers ranging from traditional automotive to new energy vehicle OEMs and overseas mid-to-high-end automotive OEMs. The Group is expected to secure more projects in the second half of the year and leverage its technical strength to solidify its influence in the automotive acoustics market.

Optics Business

In Q2 2022, revenue from the optics business increased by 14.9% YoY to RMB929 million. In 1H 2022, revenue was RMB1.85 billion, up 24.7% YoY, which was mainly attributed to the Group's core strategy of vertical integration and customers' full recognition of its R&D and manufacturing capabilities. The camera module business was on track with increasing market share. In Q2 2022, the total shipment of camera module increased by 116.6% YoY. The VCM business has commenced production and products have been shipped to customers in small batches.

In Q2 2022, the gross profit margin for plastic lens was affected by intensified market competition, weaker market demand due to the resurgence of the pandemic, the reduced overall ASP of plastic lens. In addition to continued increase in the market share of the optics market, the Group will continue to optimize internal operation, tighten expense control, improve operational efficiency, accelerate the progress of high-end projects with domestic and overseas Android customers as well as optimizing customer and product portfolios, in order to further enhance the profitability of plastic lens. The Group had announced the proposed spin-off and separate listing of the optical business and an independent financing platform will be established to provide support for the development of optics business.

The WLG technology together with the associated general technologies including molding, crafting, simulation, algorithm, etc., have strengthened the technical capability of the optics business and built a higher technological barrier. Currently, the Group is promoting the validation of hybrid lens solutions with various smartphone OEMs. 1G5P and 1G6P hybrid lens products are being steadily delivered to customers. The Group will actively promote and realize the application of WLG products in various projects in industrial fields such as automotive, AR/VR equipment, semiconductor manufacturing and testing.

Electromagnetic drives and Precision mechanics Business
For Q2 2022, revenue from this combined segment was RMB1.43 billion, up 17.4% YoY, given the continued increase in the total shipment of Android haptics products and significant revenue contribution from Toyo Precision. Gross profit margin remained stable at 21.2%. For 1H 2022, revenue from this combined segment amounted to RMB2.93 billion, up 19.8% YoY. Gross profit margin was 20.4%, down 3.4 ppts YoY, which was mainly due to an increased revenue contribution of precision mechanics business and the reduction in ASP of electromagnetic drives products.

The RichTap® solution, an industry-leading cross-platform haptics solution launched by the Group has been fully recognized by the smartphone customers with a steady increase in the penetration rate. In spite of the soft market demand from the Android market, the shipment volume of Android haptics increased by 49.4% QoQ in Q2 2022. It is expected that the annual shipment volume will continue to achieve rapid growth in 2022. At the same time, the Group has also introduced this technology platform into game consoles, AR/VR and automotive markets, which has progressed smoothly. The Group's haptics solution has already successfully entered into the supply chain of a leading global VR player.

In Q2 2022, due to expansion in new customer bases and contribution from Toyo Precision, the revenue of precision mechanics increased by 40.2% YoY. The utilization rate and gross profit margin were enhanced steadily through flexible capacity adjustment and effective cost control. As a result, the gross profit margin increased by 5.2 ppts YoY. In addition, through the integration of Toyo Precision, the Group has gained the experience of serving customers in Europe and the United States. On top of the steady progress of Toyo Precision's business, the Group was able to further obtain new projects, thereby improved the overall synergies. It is expected that the new projects will be delivered in the first half of the following year.

Sensor and Semiconductor Business
For Q2 2022, due to the increased market share, revenue for the sensor and semiconductor business increased by 1.3% YoY to RMB241 million. Gross profit margin was 13.2%, down 2.6 ppts YoY. In 1H 2022, the sensor and semiconductor business recorded a revenue of RMB479 million, down by 8.2% YoY. Gross profit margin was 13.7%, down 2.6 ppts YoY. The Group will continue to increase its overall market share this year. While maintaining a relatively high market share in the smartphone market, the Group will continue to expand into IoT, smart home appliances, wearables devices and automotive markets. Due to their high degree of versatility and standardization, these products have led to a significant increase in overall capacity utilization. In addition, the Group will launch high-end products with higher signal-to-noise ratio to meet the upgraded demand in smartphone, TV, True Wireless Stereo ("**TWS**") earphone and notebook markets regarding the requirements of higher signal-to-noise ratio, smaller dimensions and lower power consumption

Outlook
As the operating market continues to evolve, it is crucial to identify and capture the opportunities arisen from the market movement. In the long run, it's expected that the smart device solutions will continue to upgrade. The Group will leverage on the existing customer networks to continuously expand the market share and provide customers with quality-leading product portfolios and comprehensive technical support. In the future, the Group will take optimizing production costs as a key value in pursuit and strengthening the management as a core competency, and will maximize the value for its shareholders by achieving continuous growth and diversified business development.

FINANCIAL REVIEW

Revenue

1H 2022 Group revenue increased YoY by 9.3%, to RMB9.4 billion. Owing to factors discussed under "Business Review" above, revenue from the Electromagnetic Drives & Precision Mechanics and Optics products increased by RMB484.5 million and RMB366.8 million respectively, whilst sensor and semiconductor products revenue decreased by RMB42.5 million, compared with 1H 2021.

Gross Profit and Gross Profit Margin

1H 2022 gross profit was RMB1.8 billion, representing a decrease by 26.2%, from the gross profit of RMB2.4 billion in 1H 2021. The decrease in gross profit was primarily due to the rising in cost of goods sold while the reduction in gross profit margin. Gross profit margin decrease to 18.9% in 1H 2022 as compared with 28.1% in 1H 2021. The gross profit margin decrease was mainly contributed by the margin decrease in acoustics and optics businesses.

Administrative Expenses

Administrative expenses in 1H 2022 were RMB451 million, 14.0% higher, compared with RMB395 million in 1H 2021. This was mainly contributed by increase in staff related cost, share incentive expenses and professional fees. To cope with the new strategic developments and drive long term growth, the Group had enhanced the management team and launched new share award scheme.

Distribution and Selling Expenses

Distribution and selling expenses were RMB209 million in 1H 2022, increased by 45.6%, compared with RMB144 million in 1H 2021. The increase was mainly contributed by the increased staff related cost and share incentive expenses to strengthen our sales force in new market segment like automotive.

Research and Development Expenses

R&D expenses in 1H 2022 were RMB727 million, 18.6% lower than RMB894 million in 1H 2021. The decrease was primarily attributable to improved use of engineering resources in R&D stage of current product platforms and new solutions.

Finance Costs

Finance costs in 1H 2022 amounted to RMB204 million, representing a decrease of 3.3% compared with RMB211 million in 1H 2021. Such decrease was mainly due to the reduction of average bank loan balance, which was offset by the additional interest on unsecured notes accompany with the issuance of 5-year unsecured notes USD300 million at annual interest rate 2.625% and 10-year unsecured notes USD350 million at annual interest rate 3.75% in June 2021.

Taxation

Taxation expenses of the Group were calculated based on the assessable profits of the subsidiaries at the rates prevailing in the relevant jurisdictions. Taxation expenses increased from RMB53 million in 1H 2021 to RMB142 million in 1H 2022. The increase was mainly due to RMB35 million reduction of deferred tax assets relating to tax losses and other temporary differences in 1H 2022 and the RMB76 million increase in deferred tax assets relating to tax losses and other temporary difference in 1H 2021.

Profit attributable to the owners of the Company

Profit attributable to the owners of the Company for 1H 2022 was RMB350 million, a decrease by 62.0% compared with RMB921 million in 1H 2021. The decline was mainly due to the decline of gross profit and the increase in exchanges loss incurred during the period which was partly offset by the decrease in operating costs and increase in government grants.

LIQUIDITY AND FINANCIAL RESOURCES

The Group has always emphasized financial discipline and continues to maintain a strong liquidity position. Cash flows from (used in) our operating, investing and financing activities, are as below:

	For the six months ended 30 June	
	2022	2021
	RMB million	*RMB million*
Net cash from operating activities	**1,434.9**	1,222.8
Net cash used in investing activities	**(1,180.0)**	(2,181.8)
Net cash (used in) from financing activities	**(1,128.4)**	1,231.7

Operating Activities

Cash inflow from operating activities was mainly generated from cash receipts from the Group's sales. Cash outflows were related to raw materials purchases, payroll, distribution and selling expenses, expenses incurred in R&D, administrative items and taxation charges. Net cash generated from operating activities was RMB1,434.9 million for 1H 2022 (1H 2021: RMB1,222.8 million).

i. Trade Receivables and Payables

As at 30 June 2022, turnover days of trade receivables increased by 1 day to 84 days as compared to 31 December 2021. Trade receivables decreased by RMB330.1 million to RMB4.2 billion. Ageing of trade receivables (net of allowance for doubtful debts) based on invoice dates between 0–90 days, 91–180 days and over 180 days were RMB3,616.0 million (31 December 2021: RMB4,133.2 million), RMB543.8 million (31 December 2021: RMB293.7 million) and RMB7.4 million (31 December 2021: RMB70.4 million) respectively. The Company has received subsequent settlement totaling RMB1,555.6 million up to 31 July 2022, representing 37.3% of the total amount outstanding, net of allowances, as at the end of the reporting period.

The Group's trade payables turnover days decreased by 13 days to 96 days as compared to 31 December 2021. Ageing of trade payables based on invoice dates between 0–90 days, 91–180 days and over 180 days were RMB2,916.6 million (31 December 2021: RMB3,300.4 million), RMB797.7 million (31 December 2021: RMB949.9 million) and RMB17.2 million (31 December 2021: RMB13.4 million) respectively.

ii. Inventory Turnover

As at 30 June 2022, the inventories have increased by RMB363.2 million compared to 31 December 2021. The inventory turnover days increased to 141 days as at 30 June 2022 from 133 days for 31 December 2021.

Investing Activities

Net cash invested in 1H 2022 and 1H 2021, amounted to RMB1,180.0 million and RMB2,181.8 million, respectively. It mainly represents the cash used in capital expenditures ("**CAPEX**") of RMB1,121.7 million (1H 2021: RMB2,022.2 million), additions to intangible assets of RMB98.2 million (1H 2021: nil), acquisition of a subsidiary of RMB53.4 million and acquisition of equity instruments at FVTOCI and financial assets at FVTPL of RMB76.6 million (1H 2021: RMB532.1 million) offsetting by the cash inflow arising from the government grants of RMB133.3 million (1H 2021: RMB250.2 million) and withdrawal of pledged bank deposits of RMB1.7 million (1H 2021: RMB89.6 million).

CAPEX included acquisition of land use rights, additional production plant and property, and, latest automation machinery and equipment for modifications and upgrades as well as capacity expansion. For 1H 2022 and 1H 2021, total CAPEX incurred were RMB1,061.9 million and RMB2,051.9 million respectively. Investing activities are focused on sustained CAPEX programs in building technology platform per the Group's business progress to capture new market opportunities and support its long-term business strategies. CAPEX are funded by internal resources and bank loans, and are subject to annual CAPEX budgeting and approval by the Board.

Financing Activities

The Group recorded net cash used in financing activities of approximately RMB1,128.4 million for 1H 2022. Major outflows from repayment of bank loans of RMB2,042.9 million (1H 2021: RMB5,292.7 million) and interest paid of RMB159.1 million (1H 2021: RMB125.3 million), and major inflow was due to the bank loans raised amounted to RMB1,362.4 million (1H 2021: RMB2,654.6 million).

Cash and Cash Equivalents

As at 30 June 2022, the unencumbered cash and cash equivalents of the Group amounted to RMB5,218.4 million (31 December 2021: RMB6,051.4 million), of which 48.3% (31 December 2021: 57.9%) was denominated in US dollar, 46.4% (31 December 2021: 36.1%) in RMB, 1.4% (31 December 2021: 1.1%) in Vietnamese Dong, 1.3% (31 December 2021: 1.3%) in Hong Kong dollar, 0.8% (31 December 2021: 0.4%) in Japanese Yen, 0.7% (31 December 2021: 0.3%) in Singapore dollar, 0.4% (31 December 2021: 1.0%) in Malaysian ringgit, 0.3% (31 December 2021: 1.4%) in Euros, and 0.4% (31 December 2021: 0.5%) in other currencies.

Gearing Ratio and Indebtedness

As at 30 June 2022, the Group's gearing ratio, defined as total loans and unsecured notes divided by total assets, was 23.5% (31 December 2021: 23.3%). Netting off cash and cash equivalents, net gearing ratio was 10.7% (31 December 2021: 8.9%).

As at 30 June 2022, the unsecured notes of the Group were RMB6,923.3 million (31 December 2021: RMB6,573.2 million), the short-term bank loans and long-term bank loans of the Group amounted to RMB2,298.3 million (31 December 2021: RMB2,902.4 million) and RMB320.0 million (31 December 2021: RMB330.0 million) respectively.

Charges on Group Assets

Apart from bank deposits amounting to RMB0.5 million that were pledged to banks mainly in relation to construction work as at 30 June 2022 (31 December 2021: RMB2.2 million), no other Group assets were charged to any financial institutions.

OFF-BALANCE SHEET TRANSACTIONS

As at 30 June 2022, the Group had not entered into any material off-balance sheet transactions.

EVENTS AFTER THE REPORTING PERIOD

On 13 July 2022, the Company published an announcement in relation to the proposed spin-off and separate listing of AAC Optics (Changzhou) Co., Ltd. ("**AAC Optics**") on the Shanghai Stock Exchange, which, if materialised, may constitute a deemed disposal of the interest in a subsidiary of the Company under Rule 14.29 of the Hong Kong Listing Rules and a major transaction of the Company under Chapter 14 of the Hong Kong Listing Rules. The proposed spin-off was approved by the Shareholders at its extraordinary general meeting convened on 20 August 2022. For further details, please refer to the Company's announcements dated 13 July 2022 and 21 August 2022, and the Company's circular dated 3 August 2022.

KEY RISK FACTORS

The Company has structured risk management and internal control systems for the management of strategic, market, operational, financial and compliance risks. In our pursuit of technology innovation, the Company is committed to building sustainable risk management and operational information systems. We have been focusing on systematic review and upgrading our risk and control measures in chosen business processes, benchmarking against international best practices. Such systems are designed to manage the risk of failure to achieve business objectives, and can provide reasonable assurance against material misstatement or loss. Certain key risk factors affecting the Group are outlined below. The list of these factors is non-exhaustive, and there may be other risks and uncertainties which are not known to the Group or which may be immaterial now but could become material in the future. Besides, this announcement does not constitute a recommendation or an advice for anyone to invest in the securities of the Company. Investors are advised to make their own judgment or consult their own investment advisors before making any investment in the securities of the Company.

Risks Pertaining to the Smartphones Market

A substantial part of the Group's revenue is derived from the smartphone sector of the consumer electronics market. There is uncertainty due to the global pandemic and the ensuing dampened consumer sentiment and weaker demand. Existing global restrictions and uncertain outlook related to business operations, logistics, social and trading activities may extend till year end or even beyond, and may affect our operating results and financial performance. To tackle this, the Company is continuously widening its product and technologies platforms to extend its reach to different end applications, so as to diversify the sources of revenue and profit to reduce its dependency on any single segment.

Reliance on a Number of Key Customers

The Group's five largest customers, which accounted for 84.7% of the Group's total revenue in 1H 2022, are all related to the consumer electronics industry, characterized by innovation-driven and user experience-oriented business growth. Loss of or changes in market position of any of these customers may materially and adversely affect the Group's business, financial condition and results of operations. Nevertheless, the Group has focused on technology innovation to continuously enhance user experience meeting customers' specification upgrade needs. We have also implemented standardized procedures for handling all forms of customer information to ensure it is not improperly or inadvertently disclosed to third parties. The Group has established strong relationships with these major customers; all of them have been our customers for over 8 years. The credit terms granted to them are in the range of 60- to 90-day periods and are generally in line with those granted to other customers.

Risks of Supply Chain and Production Disruption due to Unforeseeable Events

The COVID-19 pandemic broke out globally in 2020. The ongoing of the pandemic in 2021 and 2022 has adversely impacted the global economy recovery. The risk of a prolonged duration of the COVID-19 pandemic might lead to significant disruption of production and shipment in the smartphone supply chain, including that of the Group. In the unlikely event that COVID-19 infects a large number of the Group's employees, the productivity of the Group's operations might be adversely affected, including the possibility of closing some premises of the Group. The above might adversely affect the Group's operating results.

Protecting the employees from the spread of COVID-19 has always been a key priority for the Group. A pandemic prevention taskforce was established and is in charge of monitoring and implementing all appropriate hygiene and distancing measures to keep the Group's employees safe while maintaining the integrity of operations to ensure supply of products to the customers. For instance, to stabilize the production capacity and the COVID-19 situation in the vicinity of our Vietnam operation, the Group made monetary donations to the Vietnam government for the purchase of vaccines for the Group's employees and the local community.

In addition to COVID-19, geopolitical events between different nations may impose unpredictable impacts to the global markets and the Company, such as disruption to the global supply of commodities including base metals and driving up the commodities' prices. The continuous increase in the prices of raw materials might lead to margin compression. Furthermore, geopolitical uncertainties may directly or indirectly impact the Group's customers, which in turn may disrupt supply chain and impact end-consumer demand.

In view of the uncertain market outlook, the Group will actively monitor the market and allocate resources flexibly to meet customers' changing demand. To mitigate the potential impacts from geopolitical events, the Group will actively manage the procurement channels, operation and production.

Operational and Obsolescence Risks

The Group's operation is subject to a number of risk factors specific to designing and providing new technology solutions. Our business continues to focus on miniature components and develop new products and technologies platforms. In meeting future design specifications and production quality requirements, our successful track record would not guarantee continual success. Changes in technological design and performance specifications or other external factors may have various levels of negative impact on the results of operations. Additionally, production, data security and quality issues may happen despite internal systems and policies set up for their prevention, which may lead to financial loss, litigation, or damage in reputation.

We believe that the Company has a seasoned process to ensure design specifications and quality requirements are met and possesses multiple overlapping core design and production competencies. This will put the Company in a strong competitive position in terms of design capacity and manufacturability, time-to-market delivery and continuous enhancement of user experience. Also, the Company continuously treats information security as a priority strategic topic, and has implemented a comprehensive range of measures to safeguard its data assets from breaches, leaks and hacks. In addition, the Company constantly reviews competition and market trends. The Company is committed to striving for innovation and maintaining a competitive position with a wide lead in knowledge. The Company has reinvested significant resources on research and development to build broad sustainable technology roadmaps and intellectual property portfolios.

The Company has put in place a quality management system. All products are subject to thorough and comprehensive testing to meet customers' requirements and international standards. The Company will continue to improve internal process capability, including live surveillance management of production stations and evaluation of "big data" systems in our operation, and set up a solid base for continual improvement in product reliability.

Liquidity and Interest Rate Risks

The Group manages liquidity risk by maintaining an adequate level of cash and cash equivalents through continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The Group is exposed to interest rate risks on its bank loans for working capital and CAPEX that are associated with the expansion of the Group. The Group focuses on mitigating the liquidity and interest rate risks, with an appropriate mix of RMB/USD/HKD borrowings that are constantly reviewed and adjusted. The Group's USD deposits served as a natural hedge to the risk of interest rate volatilities to some extent. The Group also maintains an appropriate mix of fixed/floating rate debts, an even debt repayment profile and a diversified source of funding, including the issuance of long term five-year and ten-year unsecured notes.

The Group's financial assets include bank balances and cash, pledged bank deposits, trade and other receivables, amounts due from related companies, derivative financial instruments, financial assets at fair value through profit or loss and equity instruments at fair value through other comprehensive income, which represent the Group's maximum exposure to credit risk in relation to financial assets. The credit risk on liquidity is limited because the counterparties are established banks with good credit-ratings.

Foreign Exchange Risks

Given our international operations and presence, the Group faces foreign exchange exposures including transaction and translation exposures, and is exposed to exchange rate risks that could impact financial reporting results. The Group's reporting currency is RMB and our sales to overseas customers are predominantly denominated in USD.

It is the Group's consistent policy to centralize foreign exchange management to monitor total foreign currency exposure, to net off affiliate positions, and, if necessary, to consolidate hedging transactions with banks. The cash inflow to the Group in denomination of the two currencies, namely RMB and USD, are mostly, over time, in balanced proportions. In addition, various bank facilities have been arranged in these two currencies, to meet our daily operating expenses and capital investment requirements. Hence, in our operating business model, the Group's revenue is mostly matched to the currencies of the outlay. As far as possible, the Group aims to achieve natural hedging by investing and borrowing in the functional currencies. Where a natural hedge is not possible, the Group will mitigate foreign exchange risks via appropriate foreign exchange contracts.

Intensifying Global Trade Frictions

Prolonged and intensified trade frictions might lead to a slowdown of the global consumer electronic market and a decline of the orders by the key customers of the Group, which could have a material adverse effect on the Group's business, results of operations and financial conditions. Furthermore, export controls and similar regulations may include restrictions and prohibitions on the sale or supply of certain products and on the transfer of parts, components, and related technical information and know-how to certain countries, regions, governments, persons and entities.

The Group believes that it is in compliance with applicable export control regulations, and as at the date of this announcement, the Group's results of operations have not been materially affected by expansion of export control regulations or the novel rules or measures adopted to counteract them. Nevertheless, depending on future developments in the global trade tensions, there is no assurance that such regulations, rules, or measures will not have an adverse impact on the Group's business and operations.

The Group's dedication to R&D to develop proprietary innovative technologies, and the Group's strategy in integrating R&D all over the world with our diversified manufacturing bases should help to continue to provide the best solutions to customers and mitigate some of the adverse business impact of the trade frictions.

PAST PERFORMANCE AND FORWARD-LOOKING STATEMENTS

The performance and the results of operation of the Group as set out in this announcement are historical in nature and past performance is not a guarantee of future performance. This announcement may contain certain statements that are forward-looking or which use certain forward-looking terminologies. These forward-looking statements are based on the current beliefs, assumptions and expectations of the Board regarding the industry and markets in which it operates. Actual results may differ materially from expectations discussed in such forward-looking statements and opinions. The Group, the Directors, employees and agents of the Group assume (a) no obligation to correct or update the forward-looking statements or opinions contained in this annual report; and (b) no liability in the event that any of the forward-looking statements or opinions do not materialise or turn out to be incorrect.

Since listing, the Company has been making quarterly results announcements. The Company has experienced, and expected to continue to experience, fluctuations in sales and results of operations from one quarter to the next. We believe that quarter-on-quarter and year-on-year comparisons of our periodic results of operations are, to some extent, meaningful to reflect cyclical nature of the industry the Company operates in. However, such comparisons should not be relied upon as sole indicators of the longer term performance such as annual results.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2022

	NOTES	**1.1.2022 to 30.6.2022 (Unaudited)** ***RMB'000***	1.1.2021 to 30.6.2021 (Unaudited) *RMB'000*
Revenue	*3*	**9,411,777**	8,609,140
Cost of goods sold		**(7,628,952)**	(6,194,094)
Gross profit		**1,782,825**	2,415,046
Other income, gains and losses	*4*	**280,753**	195,638
Share of result of an associate		**(594)**	-
Distribution and selling expenses		**(209,423)**	(143,821)
Administrative expenses		**(450,818)**	(395,462)
Research and development costs		**(727,372)**	(893,829)
Exchange (loss) gain		**(47,008)**	14,976
Finance costs		**(203,846)**	(210,810)
Profit before taxation	*5*	**424,517**	981,738
Taxation	*6*	**(142,468)**	(53,242)
Profit for the period		**282,049**	928,496
Other comprehensive (expense) income:			
Item that will not be subsequently reclassified to profit or loss:			
Fair value changes on equity instruments at fair value through other comprehensive income ("FVTOCI")		**(113,127)**	8,411
Items that may be subsequently reclassified to profit or loss:			
Exchange differences arising from translation of foreign operations		**(93,954)**	(66,213)
Fair value changes on derivative financial instruments		**1,738**	(6,709)
(Gain) loss reclassified to profit or loss on hedged items		**(12,526)**	17,152
		(217,869)	(47,359)
Total comprehensive income for the period		**64,180**	881,137
Profit (loss) for the period attributable to:			
Owners of the Company		**350,090**	920,952
Non-controlling interests		**(68,041)**	7,544
		282,049	928,496
Total comprehensive income (expense) for the period attributable to:			
Owners of the Company		**137,837**	874,473
Non-controlling interests		**(73,657)**	6,664
		64,180	881,137
Earnings per share			
- Basic	*8*	**RMB0.29**	RMB0.76
- Diluted	*8*	**RMB0.29**	RMB0.76

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2022

	NOTES	**30.6.2022 (Unaudited) *RMB'000***	31.12.2021 (Audited) *RMB'000*
Non-current assets			
Property, plant and equipment	*9*	**19,758,177**	19,987,447
Right-of-use assets	*9*	**1,963,827**	2,033,673
Goodwill		**275,365**	220,346
Deposits made for acquisition of property, plant and equipment		**266,046**	317,127
Investment properties	*9*	**10,675**	11,272
Interest in an associates		**3,873**	4,464
Equity instruments at FVTOCI	*10*	**763,161**	847,953
Financial assets at fair value through profit or loss ("FVTPL")	*11*	**128,176**	50,349
Intangible assets		**463,319**	383,758
Deferred tax assets		**176,617**	211,045
		23,809,236	24,067,434
Current assets			
Inventories		**6,058,447**	5,695,245
Trade and other receivables	*13*	**5,452,018**	6,012,727
Escrow deposit for acquisition of a subsidiary		**-**	169,443
Amounts due from related parties		**9,119**	5,601
Taxation recoverable		**42,326**	18,027
Pledged bank deposits		**534**	2,219
Bank balances and cash		**5,218,357**	6,051,372
		16,780,801	17,954,634
Current liabilities			
Trade and other payables	*14*	**5,176,024**	6,147,520
Contract liabilities		**17,752**	22,324
Amounts due to related companies		**22,789**	33,577
Taxation payable		**107,053**	164,932
Bank loans	*15*	**2,298,291**	2,902,389
Government grants		**128,872**	141,266
Lease liabilities		**215,850**	242,035
Derivative financial instruments	*12*	**8,713**	13,589
		7,975,344	9,667,632
Net current assets		**8,805,457**	8,287,002
Total assets less current liabilities		**32,614,693**	32,354,436

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2022

	NOTES	**30.6.2022 (Unaudited) *RMB'000***	31.12.2021 (Audited) *RMB'000*
Non-current liabilities			
Bank loans	*15*	**320,000**	330,000
Unsecured notes	*16*	**6,923,342**	6,573,182
Contingent settlement provision	*17*	**1,620,821**	1,738,830
Government grants		**701,663**	700,251
Lease liabilities		**416,522**	452,435
Deferred tax liabilities		**46,085**	40,735
Derivative financial instruments	*12*	**12,759**	17,003
		10,041,192	9,852,436
Net assets		**22,573,501**	22,502,000
Capital and reserves			
Share capital	*18*	**98,135**	98,135
Reserves		**21,830,540**	21,712,531
Equity attributable to owners of the Company		**21,928,675**	21,810,666
Non-controlling interests		**644,826**	691,334
Total equity		**22,573,501**	22,502,000

1. GENERAL

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law of the Cayman Islands with its shares listed on the Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**").

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 "Interim financial reporting" issued by the International Accounting Standards Board as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange.

The condensed consolidated financial statements are presented in Renminbi ("**RMB**"), which is the same as the functional currency of the Company.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

Other than changes in accounting policies resulting from application of amendments to International Financial Reporting Standards ("**IFRSs**"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2022 are the same as those presented in the preparation of the annual financial statements of the Company and its subsidiaries (collectively referred as the "**Group**") for the year ended 31 December 2021.

<u>Application of amendments to IFRSs</u>

In the current interim period, the Group has applied the following amendments to IFRSs issued by the International Accounting Standards Board ("**IASB**"), for the first time, which are mandatorily effective for the annual periods beginning on or after 1 January 2022 for the preparation of the Group's condensed consolidated financial statements:

Amendments to IFRS 3	Reference to the Conceptual Framework
Amendments to IAS 16	Property, Plant and Equipment - Proceeds before Intended Use
Amendments to IAS 37	Onerous Contracts - Cost of Fulfilling a Contract
Amendments to IFRSs	Annual Improvements to IFRSs 2018 - 2020

Except as described below, the application of the amendments to IFRSs in the current interim period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

2. PRINCIPAL ACCOUNTING POLICIES - continued

Application of amendments to IFRSs - continued

2.1 Impacts and changes in accounting policies on application of Amendments to IFRS 3 Reference to the Conceptual Framework

2.1.1 Accounting policies

For business combinations in which the acquisition date is on or after 1 January 2022, the identifiable assets acquired and liabilities assumed must meet the definitions of an asset and a liability in the Conceptual Framework for Financial Reporting issued by International Accounting Standards Board in March 2018 (the "**Conceptual Framework**") except for transactions and events within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, in which the Group applies IAS 37 or IFRIC 21 instead of the Conceptual Framework to identify the liabilities it has assumed in a business combination. Contingent assets are not recognised.

2.1.2 Transition and summary of effects

The Group applies the amendments to business combinations for which the acquisition date is on or after 1 January 2022. The application of the amendments in the current period had no impact on the condensed consolidated financial statements.

2.2 Impacts and accounting policies on application of Amendments to IAS 16 Property, Plant and Equipment - Proceeds before Intended Use

2.2.1 Accounting policies

Property, plant and equipment

Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, including costs of testing the related assets functioning properly and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Sale proceeds of items that are produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management (such as samples produced when testing whether the asset is functioning properly), and the related costs of producing those items are recognised in the profit or loss.

2.2.2 Transition and summary of effects

The application of the amendments has had no material impact on the Group's financial position and performance.

2. PRINCIPAL ACCOUNTING POLICIES - continued

Application of amendments to IFRSs - continued

2.3 Impacts on application of Amendments to IFRSs Annual Improvements to IFRSs 2018-2020

The Group has applied the annual improvements which make amendments to the following standards:

IFRS 9 "Financial Instruments"

The amendment clarifies that for the purpose of assessing whether modification of terms of original financial liability constitutes substantial modification under the "10 per cent" test, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or the lender on the other's behalf.

IFRS 16 "Leases"

The amendment to Illustrative Example 13 accompanying IFRS 16 removes from the example the illustration of reimbursement relating to leasehold improvements by the lessor in order to remove any potential confusion.

The application of the amendments in the current period had no impact on the condensed consolidated financial statements.

3. SEGMENT INFORMATION

Operating and reportable segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the Group's key operating decision makers in order to allocate resources to the segments and assess their performance.

Information reported to the key operating decision makers for the purposes of resource allocation and assessment of performance focuses specifically on the type of products sold. This is also the basis upon which the Group is organised and managed.

The Group's operating and reportable segments under IFRS 8 are acoustics products, electromagnetic drives and precision mechanics, optics products, sensor and semiconductor products (formerly known as MEMS components) and other products, which represent the major types of products manufactured and sold by the Group. Revenues from these products is recognised at the point in time when controls of the products have been transferred.

No operating segments have been aggregated in arriving at the reportable segments of the Group.

All sales contracts terms and the performance obligations of goods and services provided by the Group are for periods of one year or less. As permitted under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

Information regarding these segments is presented below.

3. SEGMENT INFORMATION - continued

An analysis of the Group's revenue and results by operating and reportable segments is as follows:

	1.1.2022 to 30.6.2022 RMB'000 (Unaudited)	1.1.2021 to 30.6.2021 RMB'000 (Unaudited)
Operating and reportable segments		
Segment revenue - recognised at a point in time		
Acoustics products	**4,139,367**	4,137,689
Electromagnetic drives and precision mechanics	**2,931,448**	2,446,915
Optics products	**1,852,432**	1,485,654
Sensor and semiconductor products	**478,840**	521,332
Other products	**9,690**	17,550
	9,411,777	8,609,140
Segment results		
Acoustics products	**1,121,967**	1,364,580
Electromagnetic drives and precision mechanics	**597,757**	583,135
Optics products	**(11,226)**	363,924
Sensor and semiconductor products	**65,449**	84,936
Other products	**8,878**	18,471
Total profit for operating and reportable segments - gross profit	**1,782,825**	2,415,046
Unallocated amounts:		
Interest income	**19,815**	26,021
Other income, gains and losses	**260,938**	169,617
Distribution and selling expenses	**(209,423)**	(143,821)
Administrative expenses	**(450,818)**	(395,462)
Research and development costs	**(727,372)**	(893,829)
Exchange (loss) gain	**(47,008)**	14,976
Share of results of an associate	**(594)**	-
Finance costs	**(203,846)**	(210,810)
Profit before taxation	**424,517**	981,738

Segment profit (loss) represents the profit (loss) earned (incurred) by each segment without allocation of finance costs, interest income, administrative expenses, research and development costs, distribution and selling expenses, other income, gains and losses, exchange (loss) gain and share of result of an associate. This is the measure reported to the key operating decisions makers for the purpose of resource allocation and performance assessment.

The key operating decision makers make decisions according to operating results of each segments. The Group analysed its assets and liabilities and other financial information at group level. Therefore, only segment revenue and segments results are presented.

3. SEGMENT INFORMATION - continued

The Group's revenue from external customers analysed by location of end customers is detailed below:

	1.1.2022 to 30.6.2022	1.1.2021 to 30.6.2021
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Greater China* (country of domicile)	**4,416,687**	4,570,699
Other foreign countries:		
America	**4,232,858**	3,612,773
Other Asian countries	**761,255**	424,414
Europe	**977**	1,254
	9,411,777	8,609,140

* Greater China comprises the Mainland China, Hong Kong SAR and Taiwan. Majority of the revenue from Greater China were derived from the Mainland China.

The geographical information of the Group's revenue from external end customer by individual countries in America, Europe and other Asian countries is not disclosed. In the opinion of management, such disclosure is harmful to the Group's business.

During the period, the aggregate amount of revenue derived from the Group's top customers which individually has contributed to over 10% of the Group's revenue and included in all of the Group's segments, amounted to RMB5,848,620,000 (six months ended 30 June 2021: RMB6,283,474,000). The total amount of revenue by each customer and number of customers is not disclosed, as in the opinion of the management of the Company such disclosure is harmful to the Group's business.

4. OTHER INCOME, GAINS AND LOSSES

Other income, gains and losses mainly comprise of:

	1.1.2022 to 30.6.2022	1.1.2021 to 30.6.2021
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Government grants*	**237,345**	130,828
Interest income	**19,815**	26,021
Rental income	**5,602**	6,922
Loss on disposal of property, plant and equipment	**(10,935)**	(86)

4. OTHER INCOME, GAINS AND LOSSES - continued

* Included in the amount is RMB144,236,000 (six months ended 30 June 2021: RMB80,654,000) representing amortisation of government grants. In addition, during the current interim period, the Group recognised government grants of RMB1,111,000 in respect of COVID-19-related subsidies (six months ended 30 June 2021: RMB1,062,000). The remaining amount mainly represents the incentives granted by the People's Republic of China (the "**PRC**") local authorities to the Group for engaging in High Technology business, employment of expatriates and technologically advanced staff. All the grants were approved and received during the period of recognition.

5. PROFIT BEFORE TAXATION

	1.1.2022 to 30.6.2022	1.1.2021 to 30.6.2021
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Profit before taxation has been arrived at after charging:		
Depreciation of property, plant and equipment	**1,326,600**	1,202,251
Depreciation of investment properties	**597**	597
Depreciation of right-of-use assets	**109,179**	98,121
Total depreciation*	**1,436,376**	1,300,969
Less: Depreciation of right-of-use assets capitalised in qualifying assets	**(15,052)**	(11,151)
	1,421,324	1,289,818
Amortisation of intangible assets	**29,184**	22,367
Write-down of inventories included in cost of goods sold	**66,280**	8,672
Cost of raw materials included in research and development costs	**71,039**	116,235

* Depreciation of RMB136,959,000 (six months ended 30 June 2021: RMB141,123,000) had been included in research and development costs.

6. TAXATION

	1.1.2022 to 30.6.2022	1.1.2021 to 30.6.2021
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
The tax charge comprises:		
PRC Enterprise Income Tax	**108,258**	77,760
Other jurisdictions	**6,582**	42,455
(Over) underprovision of taxation in prior years	**(12,282)**	15,912
	102,558	136,127
PRC and overseas withholding tax	**51**	118
Deferred tax	**39,859**	(83,003)
	142,468	53,242

Under the law of PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

The PRC dividend withholding tax is calculated at the applicable rate in accordance with the relevant laws and regulations in the PRC.

According to a joint circular of Ministry of Finance and the State Taxation Administration of the PRC, Cai Shui [2008] No. 1, the accumulated undistributed profits earned by foreign invested enterprise prior to 1 January 2008 can be exempted from EIT when they are distributed to foreign investor after 2008. Whereas dividend distributed out of the profits generated thereafter, shall be subject to EIT at 10% and withheld by the PRC subsidiary, pursuant to Articles 3 and 27 of the EIT Law and Article 91 of its Implementation Regulation. According to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to the Taxes on Income, the withholding tax rate on dividend paid by a PRC resident enterprise to a Hong Kong resident enterprise is further reduced to 5% if the Hong Kong resident enterprise holds at least 25% equity interests in the PRC resident enterprise and it is considered as the beneficial owner of the dividend, and remains at 10% otherwise.

In addition, certain PRC subsidiaries were officially endorsed as High-New Technology Enterprises ("**HNTE**") till the dates ranging from 2022 to 2023. Pursuant to the EIT Law, those PRC subsidiaries entitled as HNTE shall be entitled to a preferential tax rate of 15% till the expiry of the HNTE status for the respective PRC subsidiaries.

6. TAXATION - continued

Cai Shui [2018] No. 99 "Notice on Increasing the Pre-tax Deduction Ratio of Research and Development Expenses" ("**the Notice**") was released in August 2018. According to the Notice, certain PRC subsidiaries are entitled to an additional 75% tax deduction on eligible research and development expenses incurred by them for both periods.

Pursuant to relevant laws and regulations in Singapore, one of the Group's subsidiaries is entitled to a concessionary tax rate under Development and Expansion Incentive which is granted based on the fulfillment of carrying out qualifying business activities. This incentive program is effective from 1 January 2019 for 10-year period.

Pursuant to the relevant laws and regulations in Vietnam, one of the Group's subsidiaries is entitled to concessionary tax rate which is granted based on the fulfilment of carrying qualifying business activities. This tax holiday for the subsidiary will expire in 2027.

Taxation in other jurisdiction is calculated at the rates prevailing in the respective jurisdictions.

As at 30 June 2022, the Group has reversed a deferred tax asset in respect of the tax losses of RMB35,339,000 due to the unpredictable profit streams causing by impact of COVID-19 in the first half of 2022 (six months ended 30 June 2021: the Group had recognised deferred tax assets in respect of tax losses of RMB52,094,000 and government grants of RMB43,481,000).

7. DIVIDENDS

During the current interim period, no final dividend of the year in respect of the year ended 31 December 2021 (six months ended 30 June 2021: a final dividend of HK$0.20 per share in respect of the year ended 31 December 2020) was paid to shareholders of the Company. No final dividend was declared and paid in the interim period (six months ended 30 June 2021: HK$241,700,000 (equivalent to RMB201,892,000)).

Subsequent to the end of the current interim period, the Directors have resolved not to declare an interim dividend (2021 interim dividend declared: HK$0.20 per share).

8. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share for the six months ended 30 June 2022 are based on the profit for the period attributable to owners of the Company of RMB350,090,000 (six months ended 30 June 2021: RMB920,952,000) and on the 1,200,190,000 (six months ended 30 June 2021: 1,208,500,000) shares in issue during the period.

The computation of diluted earnings per share for the six months ended 30 June 2021 and 30 June 2022 did not consider the effect arising from the unvested restricted shares granted by a subsidiary as set out in note 19 as the exercise would result in an increase in earnings per share.

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT, RIGHT-OF-USE ASSETS AND INVESTMENT PROPERTIES

(i) Property, plant and equipment

During the current interim period, the Group acquired property, plant and equipment of RMB1,103,353,000 (six months ended 30 June 2021: RMB2,273,063,000). Part of the consideration of RMB317,127,000 (six months ended 30 June 2021: RMB576,467,000) was paid up in advance in prior year.

Also, the Group disposed of certain property, plant and equipment with an aggregate carrying amount of RMB24,364,000 (six months ended 30 June 2021: RMB13,295,000) for proceeds of RMB13,429,000 (six months ended 30 June 2021: RMB13,209,000) and resulting in a loss on disposal of RMB10,935,000 (six months ended 30 June 2021: loss on disposal of RMB86,000).

(ii) Right-of-use assets

During the current interim period, the Group entered into a number of new lease agreements for the use of land and buildings ranging from 1 to 4.58 years (six months ended 30 June 2021: 1 to 10 years). The Group is required to make fixed future payment and, in certain cases, is required to make prepayments. On lease commencement, the Group recognised RMB32,950,000 (six months ended 30 June 2021: RMB221,322,000) of right-of-use assets, and RMB32,950,000 (six months ended 30 June 2021: RMB221,322,000) of lease liabilities.

Also, the Group returned the leasehold land of RMB5,290,000 (six months ended 30 June 2021: nil) to government at consideration of RMB7,263,000 and a gain of derecognition of RMB1,973,000 had been recognised in profit or loss.

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT, RIGHT-OF-USE ASSETS AND INVESTMENT PROPERTIES - continued

(iii) Investment properties

During the period, depreciation on the investment properties amounted to RMB597,000 (six months ended 30 June 2021: RMB597,000) was charged to the profit or loss.

Impairment assessment

Due to the loss from the optics products segment in the current interim period, the management of the Group concluded there was indication for impairment and conducted impairment assessment on carrying amounts of certain cash-generating units within the optics products segment. Based on the result of the assessment, no impairment loss related to property, plant and equipment and right-of-use assets was recognised during the current interim period.

10. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	30.6.2022	31.12.2021
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Unlisted shares	**731,321**	800,553
Listed shares	**31,840**	47,400
	763,161	847,953

10. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - continued

Unlisted shares

The unlisted equity investments represent the Group's equity interest in private entities. The equity instruments comprise of equity interests in companies which engaged in (i) producing semiconductor components in integrated circuits and development of intellectual properties, (ii) research, development and manufacturing of sensor and semiconductor business, (iii) producing high technology products and (iv) solid state LiDAR senor for automotive series use.

During the current interim period, the Group acquired certain equity interests in a private entity engaged in manufacturing of semiconductor components at a consideration of RMB2,500,000.

During the six months ended 30 June 2021, the Group acquired certain equity interests in private entities, mainly comprising the investment in a Germany based company which engaged in solid state LiDAR sensor for automotive series use at a consideration of Euro59,992,000 (equivalent to approximately RMB473,821,000).

Listed shares

The amount represents the Group's investment in a company listed in Japan. As at 30 June 2022, the fair value of the investment determined by reference to the quoted market bid prices available was RMB31,840,000 (31 December 2021: RMB47,400,000).

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The financial assets at FVTPL represent the Group's investment in (i) a private equity fund primarily investing in industry-leading technology companies, mainly in Germany, German speaking countries and regions, the Nordic countries and the Greater China, as well as other technologically-advanced regions with strong growth potential (ii) a preferred shares investment in a private entity in sensor and semiconductor business and (iii) a private entity in AR displays manufacturing business.

During the current interim period, the Group (i) made contribution of US$4,592,000 (equivalent to approximately RMB30,059,000) to the private equity fund mentioned above and (ii) granted a convertible loan amounted to Euro5,000,000 (equivalent to approximately RMB37,594,000) in a private entity in Finland. As the convertible loan contains derivative feature for the holder to convert the outstanding amount into equity interest of the issuer, it was accounted for as financial assets at FVTPL.

As at 30 June 2022, the financial assets at FVTPL is RMB128,176,000 (31 December 2021: RMB50,349,000).

12. DERIVATIVE FINANCIAL INSTRUMENTS

	Current		Non-current	
	30.6.2022	31.12.2021	**30.6.2022**	31.12.2021
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
	(Unaudited)	(Audited)	**(Unaudited)**	(Audited)
Derivatives financial liabilities				
Interest rate swap contracts	**309**	5,014	**-**	-
Cross currency swap contract	**8,404**	8,575	**12,759**	17,003
	8,713	13,589	**12,759**	17,003

The Group entered into the interest rate swap contracts with commercial banks to minimise its exposure to cash flow changes of its floating-rate United States dollars ("**US$**") bank loans by swapping floating interest rates to fixed interest rates. The terms of these contracts were negotiated to match with those of the hedged bank loans with the same notional amounts to principal amounts of bank loans. During the year ended 31 December 2021, the Group repaid the floating-rate US-denominated bank loans. As a result, the hedge accounting was discontinued and the accumulated hedging reserve of RMB23,661,000 was released to profit or loss. During the six month ended 30 June 2022, gain on fair value change of interest rate swap contracts of RMB4,812,000 was recognised in profit or loss (six months ended 30 June 2021: loss of RMB9,569,000 on cash flow hedge was reclassified to profit or loss under hedge accounting).

The Group entered into a cross currency swap contract with a commercial bank to minimise the exposure to fluctuations in foreign currency exchange rates of US$ denominated unsecured notes. The critical terms of the cross currency swap contract and the corresponding US$ denominated unsecured notes were closely aligned and the management considers that the cross currency swap contract is highly effective hedging instrument and qualified as cash flow hedge. Fair value change on this hedging instrument in cash flow hedge of loss of RMB10,788,000 for the six months ended 30 June 2022 (six months ended 30 June 2021: gain of RMB1,003,000) has been recognised in other comprehensive income and accumulated in the hedging reserve. Gain of RMB12,526,000 (six months ended 30 June 2021: loss of RMB7,583,000) on cash flow hedge was reclassified to profit or loss.

13. TRADE AND OTHER RECEIVABLES

	30.6.2022	31.12.2021
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade receivables	**3,760,310**	4,062,457
Bank acceptance and commercial bills	**406,916**	434,863
	4,167,226	4,497,320
Prepayments	**360,684**	373,853
Value-added tax recoverable	**667,988**	836,684
Other receivables	**247,331**	292,900
Loan and interest receivables*	**8,789**	11,970
	5,452,018	6,012,727

* Loans of RMB8,359,000 (2021: RMB11,609,000) made to certain suppliers of the Group, which are unsecured, carry interest rates at 4.35% (2021: 4.35%) per annum. The amounts are repayable in 1 year.

Payment terms with customers are mainly on credit. Invoices are normally payable within 30 days to 120 days of issuance. The Group may accept bank acceptance bills with maturities ranging from 30 days to 180 days at the end of the credit terms in lieu of cash payment. As at 30 June 2022, included in trade and other receivables, the Group has bank acceptance and commercial bills amounting to RMB406,916,000 (31 December 2021: RMB434,863,000). The following is an aged analysis of trade receivables and bank acceptance and commercial bills, net of allowance for credit losses, presented based on the invoice date, which approximates the revenue recognition dates.

	30.6.2022	31.12.2021
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Age		
0 - 90 days	**3,616,051**	4,133,170
91 - 180 days	**543,779**	293,704
Over 180 days	**7,396**	70,446
	4,167,226	4,497,320

The management of the Group assessed the expected credit loss on trade receivables with significant balances individually. Based on historical experience of the management, these trade receivables are generally recoverable due to the long term/on-going relationship and good repayment record. For the remaining trade receivables, the loss allowance is assessed to be insignificant.

In addition, the management of the Group is of the opinion that those trade receivables aged over 180 days are still fully recoverable due to long-term/on-going relationship and good repayment record from these customers.

14. TRADE AND OTHER PAYABLES

	30.6.2022	31.12.2021
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade payables	**2,542,667**	2,626,140
Notes payables - guaranteed	**1,188,812**	1,637,537
	3,731,479	4,263,677
Payroll and welfare payables	**380,124**	476,776
Payables for acquisition of property, plant and equipment	**522,955**	599,105
Other payables and accruals	**444,891**	545,434
Payables of acquisition of a subsidiary	**-**	169,605
Payables related to restricted shares granted to employee (Note 19)	**96,575**	92,923
	5,176,024	6,147,520

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	30.6.2022	31.12.2021
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Age		
0 - 90 days	**2,916,624**	3,300,438
91 - 180 days	**797,698**	949,924
Over 180 days	**17,157**	13,315
	3,731,479	4,263,677

15. BANK LOANS

The variable rate bank loans carry interest ranging from 1.87% to 2.48% (31 December 2021: 0.70% to 1.00%) per annum. The fixed rate bank loans carry interest ranging from 2.30% to 3.90% (31 December 2021: 0.90% to 4.30%) per annum. The Company has issued guarantees to respective banks to secure the borrowings.

During the six months ended 30 June 2021, certain non-current bank loans of RMB1,034,369,000 were early repaid due to strategy plan. No bank loans were early repaid during current interim period.

16. UNSECURED NOTES

The Group has unsecured notes of US$388,000,000 due November 2024 at a fixed interest rate of 3.0% ("**2024 Notes**"), US$300,000,000 due 2 June 2026 at a fixed interest rate of 2.625% ("**2026 Notes**") and US$350,000,000 due 2 June 2031 at fixed interest rate of 3.750% ("**2031 Notes**"). The unsecured notes are listed on the Hong Kong Stock Exchange. The effective interest rates of the 2024 Notes, 2026 Notes and 2031 Notes are 3.1506%, 2.7023% and 3.8656% respectively.

17. CAPITAL CONTRIBUTION FROM NON-CONTROLLING INTERESTS OF A SUBSIDIARY AND CONTINGENT SETTLEMENT PROVISION

In accordance with the agreement between the Group and the non-controlling interests of a subsidiary, on occurrence or non-occurrence of future events including the separate listing condition, certain non-controlling interests of a subsidiary are entitled to require the Group for capital repayment plus a premium. A contingent settlement provision has been recognised against the equity as the Group has a contractual obligation to deliver cash and presented under non-current liabilities as the conditions set have a three-year period.

According to the Company's announcement dated 10 May 2022, AAC Technologies Limited, a wholly-owned subsidiary of the Group, agreed to purchase 48,289,693 shares, approximately 0.7133% of the total number of shares issued by AAC Optics (Changzhou) Co., Ltd. ("**AAC Optics**") from an independent strategic investor (the "**Seller**") at a consideration of RMB130,000,000 which is equal to the principal amount of the capital from the Seller in 2020. The gross obligation of RMB130,000,000 is derecognised upon the repayment of the capital contribution from that strategic investor, and the accumulated impact arising from the remeasurement of the present value of such gross obligation under the contract to the non-controlling shareholder amounted to RMB8,289,000 is derecognised and credited directly in equity and attributed to owners of the Company. In addition, the Seller has also entered into the share transfer agreements with other strategic investors to transfer in aggregate 0.8232% interest in AAC Optics and the accumulated impact arising from the remeasurement of the present value of the gross obligation under the contract amounted to RMB9,500,000 is derecognised and credited directly in equity and attributed to owners of the Company.

18. SHARE CAPITAL

	Number of shares	Amount
		US$'000
Shares of US$0.01 each		
Authorised:		
Ordinary shares at 1 January 2021, 30 June 2021, 1 January 2022 and 30 June 2022	5,000,000,000	50,000
Issued and fully paid:		
Ordinary shares at 1 January 2021, 30 June 2021, 1 January 2022 and 30 June 2022	1,208,500,000	12,085

18. SHARE CAPITAL - continued

	RMB'000
Presented in the condensed consolidated statement of financial position	
As at 1 January 2021, 30 June 2021, 1 January 2022 and 30 June 2022	98,135

19. SHARE AWARD SCHEME

<u>Share award scheme of the Company</u>

The Company on 23 March 2016 had adopted the AAC Share Award Scheme (the "**Scheme**") constituted by a Trust Deed between the Company and Bank of Communications Trustee Limited (the "**Trustee**"), in which employees may be selected by the Board of Directors to participate. Pursuant to the Scheme, shares of the Company will be subscribed for at a subscription price as determined by the Board of the Company, or purchased on the Hong Kong Stock Exchange, by the Trustee of the trusts declared in the Trust Deed.

On the grant of the share awards, the relevant number of shares is legally issued or transferred to the Trustee who holds the shares for the benefit of the selected employees. A grantee shall not have any interest or rights (including the right to receive dividends) in the shares prior to the vesting of the shares.

The expenses in relation to the share awards are charged to profit or loss over the relevant vesting periods with a corresponding increase in share award reserve.

On 24 March 2022, the Company granted a total of 10,230,593 shares to 340 selected employees pursuant to the Scheme at nil consideration. The fair value of the shares granted pursuant to the Scheme were determined with reference to market value of the shares at the award date taking into account the exclusion of the expected dividends as the employees were not entitled to receive dividends paid during the vesting periods of the shares. The Group recognised share-based payments amounting to RMB24,860,000 for the six months ended 30 June 2022.

On 25 March 2022, an aggregate of 4,188,500 shares of the Company had been purchased by the Trustee at a consideration of HK$77,283,190 (approximately RMB62,477,000) (31 December 2021: 6,042,500 shares at a consideration of HK$253,287,800 (approximately RMB211,211,000)). No new shares had been issued to the Trustee.

19. SHARE AWARD SCHEME - continued

Share award scheme of the Company - continued

The terms and conditions of the grants are as follows:

	Number of shares	**Vesting condition**	**Date of grant**	**Vesting period**	**Market value per share** *HK$*	**Fair value of shares** *HK$*
Shares awarded to selected employees	3,406,787	1 year from the date of grant	24 March 2022	24 March 2022 to 24 March 2023	17.64	60,095,731
	3,406,787	2 years from the date of grant	24 March 2022	24 March 2022 to 24 March 2024	17.64	60,095,731
	3,417,019	3 years from the date of grant	24 March 2022	24 March 2022 to 24 March 2025	17.64	60,276,199

During the six months ended 30 June 2022, the Group recognised total expenses of RMB24,860,000 (six months ended 30 June 2021: nil) in relation to the Scheme shares granted by the Company.

Subsidiary share incentive scheme ("**Subsidiary Scheme**")

AAC Optics (Changzhou) Co., Ltd. ("**AAC Optics**"), a subsidiary of the Company, entered into a capital increase agreement with three limited partnerships ("**Platforms**"), with the purpose to create share incentive platforms. The Subsidiary Scheme entitles selected employees of AAC Optics ("**Eligible Scheme Participants**") to subscribe the shares of AAC Optics, accounted for approximately 2.0% of the enlarged share capital or 135,377,918 shares of AAC Optics, corresponding to a consideration of RMB135,377,918 or at the subscription price of RMB1 per share of AAC Optics at the time of grant, which is payable at the same time. Under the Subsidiary Scheme, the Eligible Scheme Participants would settle the subscription price of shares by cash or by combination of cash and related approved loans from the Group or Platforms at market interest rate.

During the six months ended 30 June 2022, the repayment of the loans from the Group to certain Eligible Scheme Participants was RMB3,422,000. (Six months ended 30 June 2021: the fund raised from the Subsidiary Scheme is RMB135,378,000. After deducting the loans of RMB42,409,000 from the Group to certain Eligible Scheme Participants, the net cash proceeds was RMB92,969,000).

Except for 11,163,857 shares which were granted and vested immediately, the remaining shares would be vested over a requisite service period of three-and-a-half year subject to the relevant key performance targets of AAC Optics during the vesting period ("**Restricted Shares**"). Upon the issue of new shares that are vested under the Subsidiary Scheme, the Group's interest in AAC Optics has been changed. Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity (retained profits) and attributed to owners of the Company. As at 30 June 2022, the net cash proceed of unvested portion of Restricted Shares, amounting to RMB96,575,000, is recorded as other payables as the shares are contingently returnable (31 December 2021: RMB92,923,000).

19. SHARE AWARD SCHEME - continued

Subsidiary share incentive scheme ("**Subsidiary Scheme**") - continued

A summary of activities of the restricted shares with vesting condition of the Subsidiary Scheme is presented as follows:

	Number of restricted shares	Fair value of share incentive at grant date *RMB'000*
Unvested as at 1 January 2021	-	-
Granted during the period	98,936,893	162,083
Vested during the period	(11,163,857)	(18,289)
Unvested as at 30 June 2021	87,773,036	143,794

	Number of restricted shares	**Fair value of share incentive at grant date** ***RMB'000***
Unvested as at 1 January 2022 and 30 June 2022	**124,214,061**	**208,957**

The fair value of Restricted Shares granted is measured on the basis of an observable market price.

As of 30 June 2022, there are no share (30 June 2021: 36,441,025 shares) held under the Platforms which are available to be granted to the eligible employees under the Subsidiary Scheme.

During the six months ended 30 June 2022, the subsidiary recognised total expenses of RMB27,149,000 (six months ended 30 June 2021: RMB20,182,000) in relation to the Subsidiary Scheme shares granted by the subsidiary and the amount is credited to the non-controlling interests in the Group.

In the opinion of the Directors of the Company, the estimated compensation cost of Restricted Shares was based on the fair value of shares of AAC Optics at the date of grant by reference to the consideration of the latest share issue of AAC Optics in October 2020. At the end of each reporting period, the Group revises its estimates of the restricted shares that are expected to vest ultimately. The impact of the revision of the estimates, if any, is recognised in profit and loss, with a corresponding adjustment to share-based payments reserve including in the non-controlling interests. During the six months ended 30 June 2022 and 30 June 2021, no revision of the estimates was noted.

20. CAPITAL COMMITMENTS

	30.6.2022	31.12.2021
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of:		
- acquisition of property, plant and equipment	**722,112**	987,298
- capital contribution to a financial asset at FVTPL	**387,817**	364,071
	1,109,929	1,351,369

21. ACQUISITION OF A SUBSIDIARY

In April 2022, a wholly-owned subsidiary of the Company entered into an agreement with an independent third party to acquire entire issued capital of Suzhou Speed Communication Technology Limited ("**Suzhou Speed**") which principally engaged in the business of trading of electronics related accessories and components, at a cash consideration of RMB65,000,000. The acquisition has been accounted for using the acquisition method.

The acquisition-related costs are insignificant and have been excluded from the consideration transferred and recognised in profit or loss.

Assets and liabilities to be recognised at the date of acquisition

	RMB'000
Property, plant and equipment	**1,818**
Right-of-use assets	**56**
Deferred tax assets	**232**
Bank balance and cash	**11,623**
Trade and other receivables	**25,877**
Inventories	**4,824**
Trade and other payables	**(34,235)**
Tax payable	**(214)**
Net assets	**9,981**

21. ACQUISITION OF A SUBSIDIARY - continued

Goodwill arising on acquisition

	RMB'000
Consideration transferred	**65,000**
Less: recognised amounts of net assets acquired	**(9,981)**
Goodwill arising on acquisition	**55,019**

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

Net cash outflows arising on acquisition of Suzhou Speed

	RMB'000
Consideration paid in cash	**65,000**
Less: bank balances and cash acquired	**(11,623)**
	53,377

Impact of acquisition on the results of the Group

Included in the profit for the interim period is RMB3,175,000 attributable to the additional business generated by Suzhou Speed. Revenue for the interim period includes RMB23,312,000 generated from Suzhou Speed.

Had the acquisition of Suzhou Speed been completed on 1 January 2022, revenue for the interim period of the Group would have been RMB9,451,646,000, and the profit for the interim period of the Group would have been RMB291,574,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2022, nor is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had Suzhou Speed been acquired at the beginning of the interim period, the directors of the Company calculated depreciation and amortisation of property, plant and equipment based on the recognised amounts of property, plant and equipment at the date of the acquisition.

22. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial instruments that are measured at fair value on a recurring basis

In estimating the fair value of an asset or a liability, the management uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the management may consider to engage third party qualified valuers to perform the valuation.

Some of the Group's financial instruments are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial instruments are determined (in particular, the valuation techniques and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements are observable.

- Level 1 fair value measurements are quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

22. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS - continued

Fair value of the Group's financial instruments that are measured at fair value on a recurring basis - continued

Financial assets	**Fair value as at**		**Fair value hierarchy**	**Valuation technique (s) and key input (s)**
	30.6.2022	31.12.2021		
	RMB'000	*RMB'000*		
	(Unaudited)	(Audited)		
Equity instruments at FVTOCI - Listed shares	**31,840**	47,400	Level 1	Quoted bid prices in an active market.
Equity instruments at FVTOCI - Unquoted equity investments	**386,993**	450,362	Level 3	Income approach. The discounted cash flow method was used to capture future economic benefits to be derived from the ownership of these investments.
Equity instruments at FVTOCI - Unquoted equity investments	**328,152**	336,717	Level 3	Market approach. The market approach was used to determine the valuation using trailing-twelve-month Price-to-Sales multiples of selected comparable listed companies in a similar business and similar business model and adjusted for the lack of marketability.
Equity instruments at FVTOCI - Unquoted equity investments	**13,676**	13,474*	Level 3	Income approach. The discounted cash flow method was used to capture future economic benefits to be derived from the ownership of these investments.
Equity instruments at FVTOCI - Unquoted equity investments	**2,500***	-	Level 2	N/A
Financial assets at FVTPL - Unquoted investments	**83,818**	50,349*	Level 3	Recent transaction prices of underlying investments.
Financial assets at FVTPL - Unquoted investments	**44,358**	-	Level 2	N/A

* The investments were made near the end of reporting period, the management is of the opinion that the fair value of the investments as at period end approximate to the acquisition cost.

Financial liabilities	**Fair value as at**		**Fair value hierarchy**	**Valuation technique(s) and key input(s)**
	30.6.2022	31.12.2021		
	RMB'000	*RMB'000*		
	(Unaudited)	(Audited)		
Interest rate swap contracts	**309 Liabilities**	5,014 Liabilities (under hedge accounting)	Level 2	Discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contracted interest rates, discounted at an applicable discount rate taking into account the credit risk of the counter-parties and of the Group as appropriate.
Cross currency swap contract	**21,163 Liabilities (under hedge accounting)**	25,578 Liabilities (under hedge accounting)	Level 2	Discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable yield curves at the end of the reporting period) and contracted exchange rates, discounted at an applicable discount rate taking into account the credit risk of the counter-parties and of the Group as appropriate.

22. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS - continued

Reconciliation of Level 3 fair value measurements

	Equity instruments at FVTOCI *RMB'000*	Financial assets at FVTPL *RMB'000*
At 1 January 2021 (audited)	303,995	-
Currency realignment	(1,633)	-
At 30 June 2021 (unaudited)	302,362	-
At 1 January 2022 (audited)	787,079	-
Transfer from level 2 to level 3	13,475	50,349
Purchase made	-	30,059
Fair value loss in other comprehensive income	(101,987)	-
Currency realignment	30,254	3,410
At 30 June 2022 (unaudited)	728,821	83,818

Fair value of the Group's financial instruments that are not measured at fair value on a recurring basis

Except for those listed unsecured notes in which there is fair value based on the quoted bid price in an active market, amounting to RMB5,963,345,000 (31 December 2021: RMB6,575,029,000), the management considers that the carrying amounts of the other financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair values.

CORPORATE GOVERNANCE

The Board and the Company consider effective corporate governance not only a safeguard of the interests and confidence of our stakeholders, but also a key component in the Group's sustainable long term development and value creation. Our Board, which is at the centre of our corporate governance structure, has regularly reviewed and refined principles, policies and practices on the conduct with an aim to support the growth of the Group's operations. Our sound corporate governance structure includes a quality Board, high standards of corporate responsibility and sustainability awareness, a high degree of transparency, accountability and independence, and an effective design, implementation and enforcement of the risk management as well as internal controls systems. Based on regular reviews of the Company's actual performance against the Corporate Governance Code (the "**CG Code**") in Appendix 14 to the Hong Kong Listing Rules, the Board is satisfied that throughout 1H 2022, the Company has complied with all the Code Provision(s).

SHARE AWARD SCHEME

As announced by the Company on 23 March 2016, the Board resolved to adopt a share award scheme (the "**Scheme**") in which Employees (other than Excluded Employees) may be selected by the Board to participate. The purpose of the Scheme is to permit the Company to grant Awards to Selected Employees as incentives for their contributions to the Group and to attract suitable personnel for further development of the Group. The maximum number of shares that may be awarded under the Scheme during its term is limited to 1.65% (i.e. 19,940,250 shares as at 24 August 2022) of the issued share capital of the Company from time to time. The maximum number of Awarded Shares that may be granted to any one Selected Employee shall not exceed 0.5% (i.e. 6,042,500 shares as at 24 August 2022) of the issued share capital of the Company from time to time. Pursuant to the Scheme, shares will be subscribed for at a subscription price as determined by the Board, or purchased on the Hong Kong Stock Exchange, by Bank of Communications Trustee Limited (the "**Trustee**") at the cost of the Company and will be held by the Trustee on trust for Selected Employee(s) under the Scheme before vesting.

Since the date of adoption of the Scheme and up to 30 June 2022, no new shares had been issued to the Trustee pursuant to the rules and trust deed of the Scheme. On 26 August 2021 and 25 March 2022, the Trustee of the Scheme purchased 6,042,500 shares and 4,188,500 shares, respectively, on the Hong Kong Stock Exchange for the purpose of the Scheme, funded by the Company's internal resources. On 24 March 2022, a total of 10,230,593 Awarded Shares were granted to 340 employees and no shares have been vested to employees.

The capitalised terms referred in this section shall have the same meanings as those defined in the announcement made by the Company on 23 March 2016 relating to the adoption of the Scheme.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2022, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

HUMAN RESOURCES

As at 30 June 2022, the Group employed 34,678 permanent employees, an 8% decrease from 37,591 employees as at 31 December 2021. It was mainly due to improvement in the Group's productivity per employee resulting from the Group's continuous effort on implementation of automation. During 1H 2022, the worldwide pandemic situation continued and unfavorable market environment also contributed to lower manpower requirement.

Employees of the Group are remunerated based on their individual performance, professional qualifications, experience in the industry and relevant market trends. Management from time to time reviews the Group's remuneration policy based on benchmarking results, and fairly rewards its employees based on individual performance. In addition to basic salaries, allowances, social insurance and mandatory pension fund contribution, certain employees and employee groups are also eligible for the Group's bonus plan and share schemes.

As required by the relevant regulations, the Group been participating in the social insurance schemes operated by the relevant local government authorities in the PRC, and in the mandatory pension fund as well as social insurance schemes for its employees in the Czech Republic, Denmark, Finland, Hong Kong, India, Japan, Malaysia, Singapore, South Korea, Taiwan, the United Kingdom, the United States and Vietnam.

The Company is committed to invest in talents to develop innovative products for next generation designs. The Company has already established and continues to expand its various R&D centers in Asia, Europe and North America, including a long-established collaboration with universities, and others, on many different projects.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted codes of conduct regarding securities transactions by Directors and by relevant employees (as defined in the CG Code) on terms not less exacting than the required standards set out in the Model Code for Securities Transactions by Directors of Listed Issuers ("**Model Code**") as mentioned in Appendix 10 to the Listing Rules.

On specific enquiries made, all the Directors have confirmed that they have complied with the required standards as set out in the Model Code and the Company's code of conduct regarding the Directors' securities transactions during the period ended 30 June 2022.

DESPATCH OF INTERIM REPORT

The interim report of the Company will be published on the Company's website at www.aactechnologies.com and the website of the Hong Kong Stock Exchange on or around Friday, 23 September 2022.

The interim report will be dispatched to shareholders on or around Friday, 23 September 2022. All of these will be made available on the Company's website.

IMPORTANT NOTE

The Company may have an investors' webcast and media conference for these unaudited interim results after trading hours of the Hong Kong Stock Exchange on the date of this announcement. Please visit the Company's website www.aactechnologies.com for the Company's regular investor relations update.

The unaudited interim results relate only to selected unaudited key performance indicators of the Group and are based on the Group's internal records and management accounts. The unaudited interim results have been reviewed by independent auditors but are not a forecast of the annual performance of the Group as a whole.

Potential investors and shareholders of the Company are advised to exercise caution when dealing in the shares of the Company.

By order of the Board
AAC Technologies Holdings Inc.
Zhang Hongjiang
Chairman

Hong Kong, 24 August 2022

As at the date of this announcement, the Board comprises Mr. Pan Benjamin Zhengmin, Mr. Mok Joe Kuen Richard and Ms. Wu Ingrid Chun Yuan, together with four Independent Non-executive Directors, namely Mr. Zhang Hongjiang, Mr. Au Siu Cheung Albert, Mr. Peng Zhiyuan and Mr. Kwok Lam Kwong Larry.